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FIN ON THE DRY SIDE

THE ROCKY HORROR SHOW John Hyde

Australian politics is like an episode of the Rocky Horror Show: it is surreal. Foreign debt exceeds \$6000 per person and evidence of our sick economy is plain for all to see but in the broohaha of Petersen's grab for power it barely rates mention. His capacity to deal with the problems is not discussed. Deregulation and deficit reduction could still avert the worst consequences of past mismanagements but these are tough measures which the public must be encouraged to accept. But instead of trying to rally public support for tough measures community leaders are locked (against their will?) in wild incantations and denunciations of scant relevance.

We are a self indulgent people, not competing successfully in world markets, and borrowing to maintain our living standards and the day of reckoning is upon us.

'The Economist' lists economic and the financial indicators for thirteen major OECD economies. Of the thirteen, Australia has the highest inflation rate, is the only country to suffer a fall in Gross Domestic Product and has the highest interest rates. Only the Lira and the Spanish Peso have lost more value since 1975 and those not by much.

It is true that we are far from the world's worst basket case; Peru, Mexico, Argentina, Uruguay and Brazil all have inflation rates over 50% and, as the economist Alfred Marshal observed, 'there is a lot of ruin in a country'. But we are progressing toward ruin much faster than most.

Tax is dominating policy debate, such as it is, but even that debate is unreal. The tax system is a mess but it is not our most serious problem. The average taxpayer's liability cannot be reduced by reshuffling liabilities yet every voter is being encouraged to believe that he will gain from promised changes. We face a budget deficit of six to seven billion dollars. This must be eliminated first, therefore meaningful tax cuts require expenditure cuts of ten or twelve billion dollars. Cuts of this magnitude, though without doubt desirable, cannot be achieved by cutting the number of civil servants and aborigines' grants, but no one is preparing the public for cuts in the big and popular budget lines such as the old age pension.

Sir Joh's policies, identified best by looking North, are as irrelevant to Australia's difficulties as those of the wets he so despises. Sir Joh and Andrew Peacock are massaging each other's ambitions. Now that a few wheels are falling off the Joh bandwaggon the brave Mr MacPhee is trying to lump the economic rationalists and the Joh populists together under the epithet "new right". (It is past time Mr MacPhee defined his use of the term "right".)

~~Brian Parks~~

The government is lying about interest rates. The TWU is demanding a \$44 wage rise. The all-ordinaries index has never been higher. The Americas Cup dominated the headlines for months. It could be a dream; unfortunately it is not.

Whatever Mr Hawke and Mr Keating may say to the contrary, these hapless circumstances did not come unannounced. At least by 1982, under Stone's leadership, treasury officers were warning that, with no change in public policy, the present problems were a distinct possibility. There is a story---which I have no doubt is true---that in 1982 during an economic briefing treasury officers dressed cabinet down as though they were errant school children. It was probably not the best way to win the argument but their frustration is easily understood.

Hawke and Co came to office chanting "jobs, jobs, jobs" but were not prepared to advocate the reductions in real wages and unemployment benefits, necessary to create jobs, jobs, jobs. Instead they---like President Reagan---attempted a mighty fiscal stimulus, continuing the policies which the treasury advised Fraser against in 1982. The budget deficit bled into the foreign account, foreign debt increased, the dollar collapsed, the government is trying to hold the dollar from further collapse with some of the highest interest rates in the world and these are choking investment---more or less as treasury warned!

Australia needs an economic miracle; like the West German Wirtschaftswunder. Every wirtschaftswunder I can think of has been achieved by repealing economic regulations, particularly those governing international trade. This was the way of Britain over a century ago. Since the Second World War, Japan, Korea, Hong Kong, Taiwan, Singapore and Spain made their miracles with a high proportion of traded production to total production. It is how the Lange government is attempting a New Zealand recovery.

Tariffs and import quotas are not the only serious barriers in the way of Australian trade and recovery. Labour, transport and many less important internal markets are regulated so as to prevent efficient exchange. These regulations are built into the costs of exporters and producers of goods which compete with imports. These too must be deregulated. If everybody is affected it will be seen to be fair and is more likely to be accepted.

I can think of no modern government that has done it, but the deficit should be eliminated by cutting expenditure rather than raising taxes. When that is done let us reduce government expenditure further to finance tax cuts.

First we need a bonfire of regulations. That is the proven way to economic success. Those who will not face the fact that without the bonfire Australia goes down the tube are "wet". It will take most of the available political will power to see

that all the important regulations are burned. Those who will not face the fact that political will power is limited are, in a way, also "wet". Those who pretend that there are painless or unconventional ways out of trouble are dangerous. More politely expressed, those are the central messages of "Mandate to Govern" published jointly by the Australian Institute for Public Policy and the Australian Chambers of Commerce.

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